

FINANCIAL STATEMENTS

Prosperity Life Assurance Limited
For the years ended December 31, 2023 and 2022 and
Independent Auditors' Report

Prosperity Life Assurance Limited
Financial Statements
For the years ended December 31, 2023 and 2022

Contents

Independent Auditors' Report.....	1
Financial Statements	
Balance Sheets	3
Statements of Comprehensive Income (Loss)	4
Statements of Shareholder's Equity	5
Statements of Cash Flows	6
Notes to Financial Statements.....	7

Independent Auditor's Report

To the Board of Directors of
Prosperity Life Assurance Limited

Opinion

We have audited the financial statements of Prosperity Life Assurance Limited. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of comprehensive income (loss), shareholder's equity and cash flows, for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a period of one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte Ltd.

April 25, 2024

Prosperity Life Assurance Limited
Balance Sheets
(\$ in Thousands, except for par value)

	December 31,	
	2023	2022
Assets		
Investments:		
Available-for-sale fixed maturity securities (amortized cost: \$311,716 and \$281,631, respectively) (allowance for credit losses: \$0 and \$0, respectively)	\$ 275,863	\$ 231,733
Equity securities, at fair value (cost: \$20,524 and \$20,524, respectively)	17,827	17,066
Funds held by ceding companies	2,973,078	3,282,025
Other invested assets	24,097	25,674
Total investments	3,290,865	3,556,498
Cash and cash equivalents	42,381	28,652
Reinsurance recoverables	13,157	14,316
Deferred acquisition costs	8,863	10,756
Other assets	1,982	1,507
Total assets	\$ 3,357,248	\$ 3,611,729
Liabilities and Shareholder's Equity		
Liabilities:		
Future policy benefits	\$ 818,259	\$ 871,973
Policyholder funds	2,704,942	3,110,327
Unpaid Claims	40,566	49,404
Reinsurance payables (net of allowance for credit losses (\$0 and \$0, respectively))	31,593	37,582
Accrued expenses and other liabilities	4,628	5,282
Total liabilities	3,599,988	4,074,568
<i>Commitments and contingencies (Note 10)</i>		
Shareholder's equity		
Common stock, \$1 par value, 242,550,000 (2022: 242,550,000) issued and outstanding and 282,550,000 (2022: \$282,550,000) authorized	242,550	242,550
Accumulated other comprehensive income (loss)	(35,854)	(49,898)
Accumulated earnings (deficit)	(449,436)	(655,491)
Total shareholder's equity	(242,740)	(462,839)
Total liabilities and shareholder's equity	\$ 3,357,248	\$ 3,611,729

See accompanying notes.

Prosperity Life Assurance Limited
Statements of Comprehensive Income (Loss)
(\$ in Thousands)

	Year ended December 31,	
	2023	2022
Revenues		
Premiums	\$ 16,894	\$ 16,462
Net investment income	170,089	144,261
Net investment gains (losses)	131,964	(653,566)
Other revenues	(9)	1,525
Total revenues	<u>318,938</u>	<u>(491,318)</u>
Benefits and expenses		
Life and annuity benefits	(9,601)	9,947
Health benefits	2,883	811
Interest credited to policyholder funds	92,281	103,744
Policyholder dividends	(24)	128
Acquisition costs	1,893	3,144
Other expenses	25,451	24,374
Total benefits and expenses	<u>112,883</u>	<u>142,148</u>
Net income (loss)	206,055	(633,466)
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	14,044	(46,572)
Total other comprehensive income (loss)	14,044	(46,572)
Comprehensive income (loss)	\$ 220,099	\$ (680,038)

See accompanying notes.

Prosperity Life Assurance Limited
 Statements of Shareholder's Equity
 (\$ in Thousands)

	Common Stock	Accumulated Other Comprehensive Income (loss)	Retained Earnings (deficit)	Total Shareholder's Equity
Balance as of December 31, 2021	\$ 282,550	\$ (3,326)	\$ (22,025)	\$ 257,199
Net income (loss)	–	–	(633,466)	(633,466)
Other comprehensive income (loss)	–	(46,572)	–	(46,572)
Redemption of common stock	(40,000)	–	–	(40,000)
Balance as of December 31, 2022	\$ 242,550	\$ (49,898)	\$ (655,491)	\$ (462,839)
Net income (loss)	–	–	206,055	206,055
Other comprehensive income (loss)	–	14,044	–	14,044
Balance as of December 31, 2023	\$ 242,550	\$ (35,854)	\$ (449,436)	\$ (242,740)

See accompanying notes.

Prosperity Life Assurance Limited
Statements of Cash Flows
(\$ in Thousands)

	Year ended December 31,	
	2023	2022
Cash Flows from Operating Activities		
Net income (loss)	\$ 206,055	\$ (633,466)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net investment income and investment related (gains)/losses	(298,871)	509,815
Amortization and depreciation	(39,733)	(33,424)
Net policy and expense related payments from funds held by ceding companies	82,478	87,561
Cash settlement to Company on funds held reinsurance agreement	34,750	47,255
Insurance-related and policy-related liabilities	44,273	61,056
Policy acquisition costs, deferred	1,893	2,450
Other assets and liabilities	(1,129)	955
Net cash provided by (used in) operating activities	\$ 29,716	\$ 42,202
Cash Flows from Investing Activities		
Sales, maturities and repayments of:		
Available-for-sale securities	62,731	75,694
Other invested assets	5,617	4,859
Purchases of:		
Available-for-sale securities	(84,335)	(36,951)
Other invested assets	–	(29,332)
Net cash provided by (used in) investing activities	\$ (15,987)	\$ 14,270
Cash Flows from Financing Activities		
(Redemption)/ issuance of common stock	–	(40,000)
Net cash provided by (used in) financing activities	\$ –	\$ (40,000)
Net increase (decrease) in cash and cash equivalents	13,729	16,472
Cash and cash equivalents, as of beginning-of-period	28,652	12,180
Cash and cash equivalents, as of end-of-period	\$ 42,381	\$ 28,652
Non-Cash Operating Activity		
Deposits on investment-type policies on funds withheld basis	33,602	32,535
Withdrawals on investment-type policies on funds withheld basis	497,399	422,958

See accompanying notes.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

For the years ended December 31, 2023 and 2022

1. Organization and Significant Accounting Policies

Organization and Operations

Prosperity Life Assurance Limited (the ‘Company’) is a Bermuda exempt company incorporated on March 5, 2020. The Company is an indirect subsidiary of the ultimate parent, Prosperity Group Holdings L.P. (‘Prosperity’), a Bermuda exempted limited partnership. The Company’s immediate parent is Prosperity Assurance Holdco Limited (‘PAHL’), previously Irizaba Holdco (UK) Limited (‘Irizaba Holdco’).

On November 7, 2023, in preparation for the voluntary strike off and dissolution of Irizaba Holdco, all investments held by the Irizaba Holdco in the Company were transferred to Prosperity Assurance Holdco Limited (a Bermuda subsidiary of Prosperity Group Holdings LP).

The Company provides life, annuity and accident and health reinsurance solutions. On May 14, 2020, the Company was registered with the Bermuda Monetary Authority (‘BMA’) as a Class E long-term insurer under the Insurance Act 1978 and related regulations.

In 2022, Prosperity Asset Management, LLC (‘PAM’), an affiliate of the Company and an indirect subsidiary of Prosperity, was formally launched as an alternative asset manager specializing in credit and niche asset opportunities and origination platforms. PAM focuses on acquiring high-quality, cash flow-generating assets that offer superior risk-adjusted returns both directly and in partnership with complementary asset management platforms that originate differentiated, difficult-to-source assets. PAM manages all the Company’s invested assets.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (‘GAAP’).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates based on the assumptions used. The most significant reported amounts and disclosures that require extensive use of estimates include fair value of certain invested assets, reinsurance recoverables, the measurement of allowance for credit losses, other-than-temporary impairment (‘OTTI’) determinations, deferred acquisition costs (‘DAC’), future policy benefits, deferred tax assets, the potential effects of resolving litigated matters and derivatives valuation, including embedded derivatives.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

1. Organization and Significant Accounting Policies (continued)

Risks and Uncertainties

The Company operates in a business environment that is subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, interest rate risk, financial risk, risk associated with its investments, mortality, longevity and morbidity risks, legal, regulatory changes and operational risk, including cybersecurity risk.

Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments, reinsurance recoverables and payables, the liabilities for future policy benefits, and the carrying amount of DAC. Insurance liabilities are further impacted by mortality, longevity, morbidity and policyholder behavior risks. Market risk is the potential for market values to change, which can cause fluctuations in certain policyholder funds and contract charges. Credit risk is the risk that issuers of investments owned by the Company may default or that other parties may not be able to pay amounts due to the Company. The Company is also under the jurisdiction of the Bermuda Monetary Authority. The potential exists for changes in regulatory requirements, which can result in additional, unanticipated impacts to the Company.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of certain investment securities, it is at least reasonably possible that changes in value, even as soon as immediately subsequent to the issuance of the financial statements, could materially affect then-current valuation as compared to the amounts as reported in the financial statements.

Technology, systems and solutions are leveraged to conduct business and to store, protect, and manage confidential information. The failure of the technology, systems and solutions has the potential to disrupt operations, result in the loss of customer business and expose the Company to litigation and regulatory action.

Summary of Significant Accounting Policies

Fair Value Measurement

Certain assets and liabilities are reported or disclosed at fair value in the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

Assets and liabilities recorded at fair value, except certain assets for which the net asset value ('NAV') per share is used as a practical expedient, are classified in accordance with the fair value hierarchy that categorizes the inputs to the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to the inputs that are both unobservable and significant to the overall fair value measurement (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

See Note 4, *Fair Value of Financial Instruments*, for additional information with respect to fair value measurements.

Investments

Fixed Maturity Securities

Investments in fixed maturity securities classified as available-for-sale ('AFS') are reported at fair value and unrealized gains or losses on these securities are included within accumulated other comprehensive income ('AOCI').

Dividends and interest income, recorded in net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in debt securities are recorded in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Realized gains and losses on sales of investments are recognized using the specific identification method. Purchase and sales of investments are recorded on a trade-date basis.

Fixed maturity securities are loan-backed securities which include residential mortgage-backed securities ('RMBS'), commercial mortgage-backed securities ('CMBS') and other structured securities. Income on loan-backed and other structured securities is recognized using a constant effective yield based on anticipated cash flows and the estimated economic life of the securities. Prepayment assumptions are obtained from external sources or internal estimates. Significant changes to the cash flow assumptions from the original purchase assumptions are accounted for utilizing the prospective method.

Equity Securities

Equity securities are carried at fair value with changes in fair value recognized in net investment gains (losses) while dividend income is reported in net investment income in the Statement of Comprehensive Income (Loss).

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

Other Invested Assets

Other invested assets contain the Company's interest in a limited partnership investment, where the Company has the ability to exercise significant influence through its relationship and is accounted for under the equity method of accounting. Accordingly, respective earnings or losses, including unrealized gains and losses, are included in net investment income on the Statement of Comprehensive Income (Loss). In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a three-month lag.

Funds Held by Ceding Companies

Funds held by ceding companies represent receivables for amounts contractually withheld by ceding companies in accordance with funds withheld reinsurance agreements in which the Company acts as the reinsurer. Generally, assets that support the net statutory reserves as defined in the treaty are withheld and legally owned by the ceding company and any excess or shortfall is settled periodically. The underlying reinsurance agreements, which represent host contracts equivalent to debt receivables with a rate of interest equal to the book yields, contain an embedded derivative as discussed below.

Investment income on funds held by ceding companies is equal to the interest income earned on these segregated assets.

Credit Losses – Fixed Maturities and Equity Securities

The Company periodically evaluates its AFS investments in an unrealized loss position to determine whether the decline in fair value below the amortized cost basis is due to credit-related factors or noncredit-related factors. If management determines: (1) the Company has the intent to sell the security as of the balance sheet date; or (2) it is more likely-than-not that a security will be required to be sold; any existing credit loss allowances for the AFS debt security are reversed and the amortized cost basis will be written down to current fair value recognized in net investment gains (losses) on the Statement of Comprehensive Income (Loss). If neither of these conditions exist, the Company evaluates whether the decline in fair value has resulted from a credit loss or other factors.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

The Company qualitatively considers relevant facts and circumstances in evaluating whether a decline below fair value is credit-related. Relevant facts and circumstances include but are not limited to: (1) the extent to which the fair value is less than amortized cost; (2) the financial condition, near-term prospects, and long-term prospects of the issuer, including relevant industry conditions and trends; (3) with respect to structured securities, changes in forecasted cash flows after considering the quality of underlying collateral, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying assets backing a particular security, and the payment priority within the tranche structure of the security; (4) the specific reasons that a security is in a significant unrealized loss position, including market conditions that could affect access to liquidity; (5) the payment structure of the security; (6) a downgrade in the rating for a security; (7) payment structure of the security; and (8) failure to make scheduled payments.

If upon completion of this analysis it is determined that a potential credit loss exists, an allowance for expected credit losses is established equal to the amount by which the present value of expected cash flows is less than amortized cost, limited by the amount by which fair value is less than amortized cost. The expected cash flows are discounted at the effective interest rate implicit to the security at the date of purchase. For securities with a contractual interest rate that varies based on changes in an independent factor, such as an index or rate, the effective interest rate is calculated based on the factor as it changes over the life of the security. Inherently under the discounted cash flow model, both the timing and amount of expected cash flows affect the measurement of the allowance for expected credit losses.

The allowance for expected credit losses is remeasured each period for the passage of time, any change in expected cash flows, and changes in the fair value of the security. All impairments, whether intent or requirement to sell or credit-related, are recorded through a charge to the provision for credit losses within net investment gains (losses) on the Statement of Comprehensive Income (Loss). All changes in the allowance for expected credit losses are recorded through the provision for credit losses within net investment gains (losses) on the Statement of Income (Loss).

The Company made an accounting policy election to exclude the accrued interest receivable from the amortized cost balance used to calculate the allowance for expected credit losses, as the Company has a policy to write off such balances in a timely manner, when they become deemed uncollectible.

With respect to equity securities and investments in limited partnerships, if the decline in fair value is determined to be other than temporary, a loss in the entire amount of the impairment is reflected in net investment gain (loss) on the Statement of Comprehensive Income (Loss). Upon recognizing an OTTI, the new cost basis of the security is the previous cost basis less the OTTI recognized in net investment gain (loss) on the Statement of Comprehensive Income (Loss).

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

1. Organization and Significant Accounting Policies (continued)

Derivative Instruments

The Company may enter into contracts that contain embedded derivatives. For each contract, the Company assesses whether the embedded derivative has economic characteristics clearly and closely related to the economic characteristics of the host contract and determines whether a separate instrument with the same terms would meet the definition of a derivative instrument. If the Company determines that the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Embedded derivatives are recorded with the host contract at fair value and changes in their fair value are recorded in earnings.

The Company accounts for the embedded derivatives in funds withheld reinsurance agreements as total return swaps. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds held by ceding companies are recorded at fair value with the changes in the fair value of the embedded derivative reflected in net investment gain (loss) in the Statement of Comprehensive Income (Loss).

Refer to Note 3, *Funds Held by Ceding Companies and Related Embedded Derivative*, for further information on the Company's derivative instruments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less when purchased. These assets are reported at cost, which approximates fair value.

Deferred Acquisition Costs ('DAC')

Costs that are related directly to the successful acquisition of new reinsurance contracts are deferred as DAC. DAC primarily includes commissions and ceding commissions paid. These costs have been deferred and recorded as an asset.

Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized generally over the premium-paying period, in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period or over the number of policies in force, if the policies are out of the premium-paying period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. DAC related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to the projected runoff of policyholder account values.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

The Company evaluates the recoverability of DAC on an annual basis, including at issuance. If it is determined that the deferred costs are not recoverable, a cumulative charge is recorded in the current period. No such write downs were made during 2023 or 2022.

See Note 6, *Deferred Acquisition Costs*, for more information.

Reinsurance

The Company assumes insurance and investment contracts under funds withheld reinsurance agreements. Reinsurance accounting is applied to business assumed where the risk transfer criteria have been met. To meet risk transfer requirements, a long-duration reinsurance contract must transfer mortality or morbidity risks and subject the reinsurer to a reasonable possibility of a significant loss. Those contracts that do not meet risk transfer requirements are accounted for using deposit accounting.

Assets and liabilities assumed under funds withheld reinsurance agreements are presented gross on the Balance Sheet. The fair value of the consideration received for business assumed which meets risk transfer requirements is included in the premiums line of the Statement of Comprehensive Income (Loss). Changes to assumed reserves and benefits paid are presented net in the life and annuity benefits line or health benefits line.

When the fair value of the consideration received for reinsurance transactions is greater than the liabilities reinsured, the resulting deferred gain is recognized as either deferred profit liability ('DPL') if related to traditional life insurance contracts or unearned revenue reserve ('URR') if related to interest sensitive contracts. The consideration received is calculated as the fair value of any assets received, exclusive of any ceding commission paid or payable. DPL and URR are included on the Balance Sheet within the applicable liability balances to which they relate and are earned using the methodology consistent with DAC amortization.

Accounting for reinsurance requires the use of assumptions, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company attempts to minimize counterparty risk credit risk through the structuring of the terms of the reinsurance agreements, including the use of trusts and the monitoring of credit ratings of the counterparties for signs of declining credit quality.

Other Assets and Accrued expenses and other liabilities

Other assets are comprised primarily of amounts receivable from investments transactions and accrued investment income.

Accrued expenses and other liabilities are comprised primarily of amounts payable for investment transactions, amounts due to affiliates and payroll and general expense accruals.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

1. Organization and Significant Accounting Policies (continued)

Commission and Expense Allowances

Commission and expense allowances are the costs reimbursed under the reinsurance agreements that are related to the production of new business and the maintenance of existing reinsured policies. Commission and expense allowances are accounted for on a basis consistent with that used in accounting for the underlying reinsured contracts and the terms of the reinsurance agreements.

Future Policy Benefits, Policyholder Funds and Unpaid Claims

The Company establishes and carries actuarially determined reserves that are calculated to meet its future obligations. Future policy benefits are comprised of traditional life, immediate annuities with life contingencies and accident and health insurance contracts. Future policy benefits are established using accepted actuarial valuation methods which require the use of assumptions related to expenses, investment yield, mortality, morbidity, withdrawals and persistency based on historical experience projected at the time of policy issue or policy purchase date, as appropriate.

The range of discount rates used to compute the Company's reserves for future policy benefits are as follows:

	2023	2022
Traditional life insurance	2.50%	2.50%
Immediate annuities with life contingencies	1.50% - 3.86%	1.50% - 3.86%
Accident and health	2.40%	2.40%

Policyholder funds include fixed deferred annuities and immediate annuities without life contingencies. Liabilities associated with deferred annuities generally represent the account values before any applicable surrender charges. The Company records, as revenue, any amounts charged against the reserves for the cost of insurance, policy administration, and surrender penalties. Any interest credited to the reserves and any benefit payments that exceed the contract liability account balance are recorded as expenses. The weighted-average crediting rates were 3.48% and 3.34% for deferred annuities for the years ended December 31, 2023 and 2022, respectively. Liabilities for immediate annuities without life contingencies are calculated as the present value of future liability cash flows discounted at contractual interest rates.

For liabilities which have excess benefits, the Company periodically revises the key assumptions used in the calculation of the liabilities, including investment yields and expected excess benefits. The effects of these changes in assumptions are recorded as unlocking, on the Statement of Income (Loss), in the period in which the change was made.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

Unpaid claims consist of (1) claims that are unpaid as of the balance sheet date and estimated claim reserves related to those reported claims that will result in future payments and (2) estimated claims that have been incurred but have not yet been reported as of the balance sheet date. The Company consistently estimates incurred but not yet reported losses using actuarial principles and assumptions based on historical and projected claim incidence patterns, claim size and the expected payment period.

On an annual basis, for life insurance contracts, the Company performs loss recognition testing (“LRT”) to determine whether a premium deficiency exists. A premium deficiency exists if the current reported reserves plus the present value of expected future premiums are not sufficient to cover the present value of expected future benefits and expenses. As of December 31, 2023, and 2022, there was no premium deficiency identified as part of LRT.

Reinsurance Recoverables and Reinsurance Payables

Reinsurance recoverables include contractual balances due from ceding companies which support the reinsurance agreement. These assets are held in trust for the benefit of the Company. Reinsurance payables include net settlements due to ceding companies.

Premium Recognition

Assumed reinsurance premiums related to insurance contracts are recognized as revenue when due from the ceding companies. For investment contracts not meeting risk transfer criteria, premiums collected are reported as deposits to policyholder funds.

Income Taxes

The Company is organized under the laws of Bermuda and is subject to income taxes based on enacted income tax legislation in the jurisdiction. On December 27, 2023, Bermuda signed the Bermuda Corporate Income Tax Act (the ‘Act’) to create a corporate income tax using a 15% statutory tax rate to align with the Global Anti-Base Erosion (‘GloBE’) rules and qualify as a covered tax. The tax will be effective starting 1/1/2025 and is applicable to Bermuda tax-resident entities and permanent establishments that are part of multinational enterprise (‘MNE’) groups with annual revenues that exceed at least €750M. However, the tax is deferred until 1/1/2030 for MNE groups with 1) five or fewer jurisdictions outside of Bermuda, 2) net book values of tangible assets of all constituent entities does not exceed €50 million, and 3) no parent entity is required to apply an Income Inclusion Rule with respect to any constituent entity of the MNE Group located in Bermuda. The Company meets the qualifications for tax deferral and will be required to file a combined tax return with Bermuda starting in 2030.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

Bermuda provides for an economic transition adjustment ('ETA'), which allows a Bermuda Tax Resident Entity or Bermuda Permanent Establishment to establish a deferred tax asset as if the provisions of the legislation were enacted prior to September 30, 2023. The ETA is expected to offset expected future taxable income from the reversal of unrealized losses related to interest rates.

See Note 13, *Income tax*, for more information.

Comprehensive Income

Comprehensive income includes both net income and other items of comprehensive income comprised of unrealized gains and losses on investment securities classified as AFS.

Commitments and Contingencies

Contingencies arising from regulatory judgments, noninsurance claims, assessments, guarantees, litigation, fines, penalties and other sources are recorded when deemed probable and the amounts are reasonably estimable.

See Note 10, *Commitments and Contingencies*, for more information.

Adoption of New and Recent Accounting Standards

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Credit Losses*, which replaces the current incurred loss impairment methodology with a broader range of reasonable and supportable credit loss assumptions. The new guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down of the investment balance. In each subsequent period, the entity is allowed to record reversals of credit losses in the current period net income in order to align the Statement of Comprehensive Income recognition of credit losses with the reporting period in which changes occur. The provisions of the ASUs are effective for non-public entities on January 1, 2023 and early adoption is permitted. The Company adopted this new guidance on January 1, 2023, using a modified retrospective approach. The adoption of this guidance had no significant impact on the Company's financial statements.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

1. Organization and Significant Accounting Policies (continued)

Leases

In February 2016, the FASB issued new guidance on leasing transactions (ASU 2016-02, *Leases - Topic 842*) and subsequently, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements* and ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Leases are classified as finance or operating leases and both types of leases are recognized on the balance sheet. Lessor accounting remains largely unchanged from prior guidance except for certain targeted changes. The new guidance also required new qualitative and quantitative disclosures. The Company adopted the guidance on its required effective date, January 1, 2022. The adoption of this guidance had no impact on the Company's financial statements.

Future Adoption of New Accounting Standards

Long Duration Insurance Contracts

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts* (ASU 2018-12), which amends the accounting model under GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods. The guidance requires insurance entities to update, on retrospective basis, the assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually with the changes recognized through net income. This includes use of an upper-medium grade (low-credit-risk) fixed income discount rate that is required to be updated quarterly with changes recorded through accumulated other comprehensive income. The updated guidance also changes the amortization method of deferred acquisition costs (DAC) and the measurement of market risk benefits.

The guidance significantly impacts the accounting for the traditional and limited-pay contracts. The provisions of the ASUs are effective for non-public entities on January 1, 2025, for annual financial statements and interim periods within fiscal years beginning in 2026, with early adoption permitted. The Company does not plan to early adopt this guidance and is currently evaluating the impact of this guidance with an expectation that the updated guidance will have a significant impact on its financial statements.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

2. Investments

At December 31, 2023 and 2022, the distribution of gross unrealized gains and losses on investments in fixed maturities were as follows:

	December 31, 2023				
	Amortized Cost	Gross Unrealized		Fair Value	Allowance for Credit Losses
		Gains	Losses		
Fixed maturity AFS securities:					
U.S. Corporate	\$ 9,632	\$ –	\$ (2,416)	\$7,216	\$ –
Foreign Corporate	–	–	–	–	–
State and municipal	4,792	–	(1,077)	3,715	–
CMBS	85,934	315	(13,753)	72,496	–
RMBS	70,987	137	(9,934)	61,190	–
Other structured securities	140,371	945	(10,070)	131,246	–
Total fixed maturity AFS securities	<u>\$ 311,716</u>	<u>\$ 1,397</u>	<u>\$ (37,250)</u>	<u>\$ 275,863</u>	<u>\$ –</u>

	December 31, 2022				
	Amortized Cost	Gross Unrealized		Fair Value	OTTI in AOCI ¹
		Gains	Losses		
Fixed maturity AFS securities:					
U.S. Corporate	\$ 54,457	\$ 120	\$ (2,637)	\$ 51,940	\$ –
Foreign Corporate	3,967	50	–	4,017	–
State and municipal	4,797	–	(1,185)	3,612	–
CMBS	53,171	–	(15,049)	38,122	(961)
RMBS	69,700	–	(14,232)	55,468	–
Other structured securities	95,539	–	(16,965)	78,574	–
Total fixed maturity AFS securities	<u>\$ 281,631</u>	<u>\$ 170</u>	<u>\$ (50,068)</u>	<u>\$ 231,733</u>	<u>\$ (961)</u>

¹Represents the amount of OTTI losses in AOCI, which were not included in earnings pursuant to authoritative guidance. Amount excludes (\$97) for the year ended December 31, 2022, respectively, of gross unrealized gains (losses) on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

2. Investments (continued)

Unrealized Losses on Fixed Maturity AFS Securities – Gross unrealized losses (including noncredit impairments) and the fair value of the Company’s AFS securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
December 31, 2023						
U.S. Corporate	\$ –	\$ –	\$ 7,216	\$ 2,416	\$ 7,216	\$ 2,416
State and municipal	–	–	3,715	1,077	3,715	1,077
CMBS	1,432	179	48,235	13,574	49,667	13,753
RMBS	5,056	767	49,770	9,167	54,826	9,934
Other structured securities	39,687	630	55,400	9,440	95,087	10,070
Total	\$ 46,175	\$ 1,576	\$ 164,336	\$ 35,674	\$ 210,511	\$ 37,250

	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
December 31, 2022						
U.S. Corporate	\$ –	\$ –	\$ 7,106	\$ 2,637	\$ 7,106	\$ 2,637
State and municipal	–	–	3,612	1,185	3,612	1,185
CMBS	12,931	4,783	25,191	10,266	38,122	15,049
RMBS	33,298	8,313	22,170	5,920	55,468	14,233
Other structured securities	66,425	15,413	12,149	1,551	78,574	16,964
Total	\$ 112,654	\$ 28,509	\$ 70,228	\$ 21,559	\$ 182,882	\$ 50,068

The Company believes the unrealized loss positions as of December 31, 2023 do not represent credit loss allowances and as of December 31, 2022 do not represent OTTI, respectively, as there is no intention to sell these AFS fixed maturity securities, it is not more likely-than-not that the Company will be required to sell the AFS fixed maturity securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or the Company has the ability and intention to hold the equity securities for a period of time sufficient for recovery. Further, as of December 31, 2023 and 2022, the Company had the ability to generate adequate amounts of cash from normal operations (e.g., insurance premiums and fees, investment income, and return of principal) to meet cash requirements without requiring the sale of any temporarily impaired securities.

The Company did not recognize any credit losses as an allowance in fixed income securities for the year ended December 31, 2023. The Company recognized OTTI losses of \$961 for the year ended December 31, 2022.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

2. Investments (continued)

The amortized cost and fair value of fixed maturity AFS securities by contractual maturity, are shown below:

	December 31, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ –	\$ –	\$ –	\$ –
Over one year through five years	–	–	44,715	44,834
Over five years through ten years	4,792	3,715	8,763	7,629
Over ten years	9,632	7,216	55,828	43,424
Subtotal	14,424	10,931	109,306	95,887
CMBS	85,934	72,496	53,171	38,122
RMBS	70,987	61,190	69,700	55,468
Other structured securities	140,371	131,246	49,454	42,256
Total fixed maturity AFS securities	\$ 311,716	\$ 275,863	\$ 281,631	\$ 231,733

Actual maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Other Invested Assets – Other invested asset consists of an investment in a limited partnership. This investment had a NAV of \$24,097 as of December 31, 2023 (2022 - \$25,675). The Company did not recognize any OTTI losses on other invested assets for the years ended December 31, 2023 and 2022.

Net Investment Income – Major categories of net investment income are summarized as follows:

	Year ended December 31	
	2023	2022
Fixed maturity AFS securities	\$ 20,242	\$ 15,878
Equity securities	890	837
Policy loans ¹	795	1,048
Funds held by ceding companies	154,559	138,040
Cash and cash equivalents	1,773	184
Other invested assets	4,058	1,116
Investment income	182,317	157,103
Investment expenses	(12,228)	(12,842)
Net investment income	\$ 170,089	\$ 144,261

¹Policy loans are held by ceding companies and included in reinsurance recoverables

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

2. Investments (continued)

Net investment gains (losses) – The detail of net investment gains (losses) by class of investment is summarized as follows:

	Year ended December 31	
	2023	2022
Fixed maturity AFS securities	\$ 192	\$ (8,383)
Equity securities	762	(3,719)
Net gains (losses) on funds held by ceding companies	131,010	(641,464)
Total net investment gains (losses)	\$ 131,964	\$ (653,566)

Proceeds from Sales – Proceeds from sales of investments, by investment type is summarized as follows:

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Total Proceeds	Gross Realized Gains	Gross Realized Losses	Total Proceeds	Gross Realized Gains	Gross Realized Losses
Fixed maturity AFS securities	\$ –	\$ –	\$ –	\$ 70,803	\$ 1	\$ (6,541)
Equity Securities	–	–	–	–	–	–
Total	\$ –	\$ –	\$ –	\$ 70,803	\$ 1	\$ (6,541)

Net realized gains (losses) – Net realized gains (losses) on involuntary prepayments of fixed maturity AFS securities are summarized as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
	Fixed maturity AFS securities	\$ 192
Total	\$ 192	\$ –

Dispositions in the above tables include sales, losses recognized in anticipation of dispositions, and other transactions, such as calls and prepayments. The Company may sell securities during the period in which fair value has declined below amortized cost. In certain situations, new factors such as unanticipated changes in asset/liability management policies, changes in expected liability cash flows, market movements, market liquidity concerns, relative value opportunities, business plans, the expectation that market value could deteriorate further, and changes in credit quality can subsequently change the Company's decision to hold a security.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

2. Investments (continued)

Concentrations of Financial Risk – As of December 31, 2023, the Company’s two most significant exposures to a single issuer, other than the U.S. government and its agencies, were investments in Logan Clo II Ltd. with a fair value of \$25.3 million or 7.0% and Anchorage Credit Funding 3, Ltd. with a fair value of \$19.3 million or 5.4%, of the combined cash, cash equivalents and investment portfolios, respectively. As of December 31, 2022, the Company’s two most significant exposures to a single issuer, other than the U.S. government and its agencies, were investments in BR Advisory & Investments, LLC. with a fair value of \$44.8 million or 14.8% and Logan CLO II Ltd. with a fair value of \$19.3 million or 6.4%, of the combined cash, cash equivalents and investment portfolios, respectively. These investments are included as fixed maturity AFS securities in the tables above.

As of December 31, 2023, the Company’s two largest investment exposures to a single industry were in the diversified financial services industry with a fair value of \$14.6 million, or 4.1% of the combined cash, cash equivalents and investment portfolios, and in the insurance industry with a fair value of \$5.6 million, or 1.6% of the combined cash, cash equivalents and investment portfolios. As of December 31, 2022, the Company’s two largest investment exposures to a single industry were in the financial services industry with a fair value of \$58.5 million, or 19.3% and the insurance industry with a fair value of \$5.6 million, or 1.9%, of the combined cash, cash equivalents and investment portfolios, respectively. These investments are included as fixed maturity AFS securities in the tables above.

3. Funds Held by Ceding Companies and Related Embedded Derivative

Funds held by ceding companies consist mainly of invested assets and cash and cash equivalents retained by the ceding company. The assets are held in trust or custodial accounts that are legally segregated from other assets of the cedants. The Company is exposed to the investment performance of the underlying assets, as if the assets were directly owned by the Company. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company’s contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

3. Funds Held by Ceding Companies and Related Embedded Derivative (continued)

The assets supporting the funds held by ceding companies as at December 31 were as follows:

	2023	2022
Fixed maturity AFS securities		
U.S. government and agency	\$ 73,990	\$ 73,823
U.S. corporate	785,920	929,423
Foreign corporate	260,240	248,558
State and municipal	66,939	83,053
CMBS	487,906	491,747
RMBS	106,633	124,491
Other structured securities	799,045	931,538
Total fixed maturity AFS securities	\$ 2,580,673	\$ 2,882,633
Mortgage loans	306,522	334,286
Cash and cash equivalents	65,601	43,128
Equity securities	3,460	3,669
Other assets and liabilities	4,022	4,747
Other invested assets	12,801	13,562
Total	\$ 2,973,079	\$ 3,282,025

Embedded Derivatives – The Company’s embedded derivative related to funds withheld reinsurance agreements is reported at fair value in funds held by ceding companies on the Balance Sheet with a liability value of \$475,431 as of December 31, 2023 and \$631,798 as of December 31, 2022. The Company recorded a gain of \$156,367 on the embedded derivative for the year ended December 31, 2023 and a loss of \$614,726 for the year ended December 31, 2022. The embedded derivative gains and losses are reported within the net investment gains (losses) line on the Statement of Comprehensive Income (Loss).

4. Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

	December 31, 2023		December 31, 2022	
	Carrying Value	Total Estimated Fair Value	Carrying Value	Total Estimated Fair Value
Cash and cash equivalents	\$ 42,381	\$ 42,381	\$ 28,652	\$ 28,652
Fixed maturity AFS securities	275,863	275,863	231,733	231,733
Equity securities	17,827	17,827	17,066	17,066
Funds held by ceding companies	2,973,078	2,973,078	3,282,025	3,282,025
Other invested assets	24,097	24,097	25,674	25,674
Interest sensitive liabilities ¹	2,518,991	2,518,991	2,890,506	2,890,506

¹ Included within Policyholder Funds on the Balance Sheet

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

4. Fair Value of Financial Instruments (continued)

Fair Value Valuation Methods – The Company used the following valuation methods and assumptions to estimate fair value:

Investment Securities – The fair values of the Company’s investments are disclosed in Note 2. The fair value for these instruments is based on the price published by a third-party pricing service, if available. If not available, the Company measures the fair value of investments based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the investment and is consistently applied to measure the investment’s fair value. The Company’s fair value measurement is based on a market approach which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include: third-party pricing services, independent broker quotations, and pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. For securities valued through third-party pricing services, the Company gains an understanding of the fair value inputs and pricing methodologies at the service provider in determining the appropriateness of the fair value measurements provided.

Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, and industry and economic events are monitored. For certain investments, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only investments, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, the Company employs, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales and discussions with brokers as well as observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, the Company relies on its third-party investment manager to provide valuations, which the Company subsequently reviews independently for reasonableness.

Generally, the Company does not adjust prices received from third parties; however, the Company does analyze the third-party pricing services’ valuation methodologies and related inputs and performs additional evaluations to determine the appropriate level within the fair value hierarchy.

Funds Held by Ceding Companies – The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap methodology with reference to the fair value of the investments held by the ceding company that support the Company’s funds withheld at interest asset. The fair value of the underlying assets are determined based on assumptions, methodologies and techniques determined in a consistent manner with the Company’s general account assets and are generally based on market observable inputs using market valuation methodologies.

Cash and Cash Equivalents – The carrying amount of cash and cash equivalents approximates fair value.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

4. Fair Value of Financial Instruments (continued)

Interest Sensitive Liabilities – Interest sensitive liabilities include deposit-type contracts and other liabilities which are considered investment-type contracts. The balances are included within policyholder funds on the Balance Sheet. The fair values of the account balance for such investment contracts are based on their approximate surrender values.

The fair values of the Company’s liabilities for insurance contracts other than investment type contracts are not required to be disclosed. However, the fair values of liabilities for all insurance contracts are taken into consideration in the Company’s overall management of interest rate risk, such that the Company’s exposure to changing interest rates is minimized through the matching of investment maturities with amounts due for insurance contracts.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1–Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 –Inputs to the valuation methodology are other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability; and
- Level 3 –Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity uses its own assumptions and estimates about the assumptions market participants would use in pricing the asset or liability, including assumptions regarding risk.

The following table summarizes the Company’s assets measured at fair value on a recurring basis:

December 31, 2023	NAV	Level 1	Level 2	Level 3	Total Fair Value
Fixed maturity AFS securities:					
U.S. government and agency	\$ –	\$ –	–	\$ –	–
U.S. corporate	–	–	7,216	–	7,216
Foreign corporate	–	–	–	–	–
State and municipal	–	–	3,715	–	3,715
CMBS	–	–	72,496	–	72,496
RMBS	–	–	61,190	–	61,190
Other structured securities	–	–	78,785	52,460	131,245
Equity securities	–	–	17,827	–	17,827
Funds held by ceding companies	12,801	143,614	2,292,080	524,584	2,973,079
Other invested assets	24,097	–	–	–	24,097
Cash and cash equivalents	–	42,381	–	–	42,381
Total assets measured at fair value	\$ 36,898	\$ 185,995	\$ 2,533,309	\$ 577,044	\$ 3,333,246

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

4. Fair Value of Financial Instruments (continued)

December 31, 2022	NAV	Level 1	Level 2	Level 3	Total Fair Value
Fixed maturity AFS securities:					
U.S. government and agency	\$ –	–	–	–	–
U.S. corporate	–	–	7,106	44,834	51,940
Foreign corporate	–	–	4,017	–	4,017
State and municipal	–	–	3,612	–	3,612
CMBS	–	–	38,122	–	38,122
RMBS	–	–	55,468	–	55,468
Other structured securities	–	–	71,656	6,918	78,574
Equity securities	–	–	17,066	–	17,066
Funds held by ceding companies	13,562	47,876	2,738,983	481,604	3,282,025
Other invested assets	25,674	–	–	–	25,674
Cash and cash equivalents	–	28,652	–	–	28,652
Total assets measured at fair value	\$ 39,236	\$ 76,528	\$ 2,936,030	\$ 533,356	\$ 3,585,150

The Company has no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2023 or 2022.

Level 3 Financial Instruments – the table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). All transfers in and out of Level 3 are based on changes in the availability of pricing sources, as described in the valuation methods above:

	Year Ended December 31, 2023								
	Beginning fair value	Purchases & acquisitions	Total Realized and unrealized gains (losses)			Transfers in or out of Level 3	Ending fair value	Total Unrealized Gains (Losses) included in	
			Items included in income	Gains/losses in AOCI	Redemptions			Income	OCI
Fixed maturity AFS securities:									
U.S. corporate	\$ 44,834	\$ 1,320	\$ (214)	\$ (120)	\$ (45,820)	\$ –	\$ –	\$ –	\$ –
Other structured securities	6,918	1,071	6,651	4,737	(3,858)	36,941	52,460	–	(6,240)
Funds held by ceding companies	481,604	30,373	28,613	–	(99,244)	83,238	524,584	(51,166)	–
Total level 3	\$ 533,356	\$ 32,764	\$ 35,050	\$ 4,617	\$ (148,922)	\$ 120,179	\$ 577,044	(51,166)	\$(6,240)

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

4. Fair Value of Financial Instruments (continued)

	Year ended December 31, 2022							Ending fair value
	Beginning fair value	Purchases & acquisitions	Total Realized and unrealized gains (losses)		Redemptions	Transfers in or out of Level 3		
			Items included in income	Gains/losses in AOCI				
Fixed maturity AFS securities:								
U.S. corporate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,834	\$44,834	
Other structured securities	-	9,595	800	(3,477)	-	-	6,918	
Funds held by ceding companies	437,852	129,131	(61,982)	-	(52,629)	29,232	481,604	
Total level 3	\$ 437,852	\$ 138,726	\$ (61,182)	\$ (3,477)	\$ (52,629)	\$ 74,066	\$ 533,356	

The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the year in which the actual event or change in circumstances that caused the transfer occurs.

Internally Priced Level 3 Assets and Liabilities - The following tables present quantitative information on significant internally priced Level 3 assets and liabilities:

December 31, 2023	Fair Value	Valuation Technique	Unobservable Input
Assets:			
Funds held by ceding companies:			
Other structured securities	\$30,216	Market Comparable	Discount Rate
Other structured securities	27,092	Discounted Cash Flows	Discount Rate

December 31, 2022	Fair Value	Valuation Technique	Unobservable Input
Assets:			
Funds held by ceding companies:			
Other structured securities	\$27,809	Market Comparable	Discount Rate
Other structured securities	9,236	Discounted Cash Flows	Discount Rate

5. Reinsurance

The Company assumes certain life, annuity, and health business from other insurance companies under reinsurance agreements. All of the premiums, life, annuity and health benefits and interest credited to policyholder funds on the Statement of Comprehensive Income (Loss) for December 31, 2023 and 2022 are from assumed reinsurance agreements. The company does not write any direct business nor does the Company have any ceded reinsurance.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

5. Reinsurance (continued)

Reinsurance typically provides recapture rights on the part of the ceding company in certain events of default. Additionally, some reinsurance agreements require the Company to place assets in trust accounts for the benefit of the ceding company. The required minimum assets are measured at book value and are determined by statutory reserves as defined by the reinsurance agreements and were \$138,309 as of December 31, 2023 and \$167,392 as of December 31, 2022. Although the Company owns the assets placed in the trust accounts, their use is restricted based on the trust agreement terms. If the book value of the assets in the trusts decline because of impairment or other reasons, the Company may be required to contribute additional assets to the trust.

6. Deferred Acquisition Costs

Substantially all of the Company's deferred acquisition costs balance is generated from ceding commissions paid on reinsurance transactions. The following represents a roll forward of deferred acquisition costs ('DAC'):

	2023	2022
Balance at beginning of year	\$ 10,756	\$ 13,206
Deferrals	590	694
Amortization, net of interest	(2,483)	(3,144)
Balance at end of year	\$ 8,863	\$ 10,756

7. Insurance

The following table summarizes the future policy benefits by product as of December 31:

	2023	2022
Traditional life insurance	\$ 157,347	\$ 164,811
Accident and health contracts	18,392	25,769
Deferred annuities	127,349	127,546
Immediate annuities	515,172	553,847
Total	\$ 818,260	\$ 871,973

The following table summarizes the policyholder funds by product as of December 31:

	2023	2022
Deferred annuities	\$ 2,513,001	\$ 2,860,173
Immediate annuities	191,941	250,154
Total	\$ 2,704,942	\$ 3,110,327

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

8. Other Expenses

Other expenses include commissions expense incurred on the reinsurance agreements, general and administrative expenses and licenses, taxes, and fees, including insurance excise tax included as part of the reinsurance settlements. The below table provides a breakdown of other expenses for the years ended December 31:

	2023	2022
Commissions expense	\$ 12,494	\$ 12,845
Insurance excise tax	6,265	5,803
General and administrative and other expenses	6,692	5,726
Total	\$ 25,451	\$ 24,374

9. Equity

Common stock – The Company has issued one class of common stock, which represents 100% of the total voting power and is beneficially owned by PAHL. As of December 31, 2023 and 2022 the Company had shares issued and outstanding of \$242,550. Shares authorized as of December 31, 2023 and 2022 were \$282,550.

Accumulated other comprehensive income ('AOCI') – The following provides the details and changes in AOCI for the year ended December 31:

	2023	2022
Balance as of beginning of year	\$ (49,898)	\$ (3,326)
Unrealized holding gains (losses) arising during the year	14,044	(46,572)
Balance as of end of year	\$ (35,854)	\$ (49,898)

10. Commitments and Contingencies

The Company had no outstanding commitments to fund partnership investments as of December 31, 2023 and 2022.

Various lawsuits against the Company may arise in the course of the Company's business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered probable or material in relation to the financial position of the Company.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

11. Dividends and Statutory Information

The Company is licensed by the BMA as a Class E long-term insurer and is subject to the Insurance Act 1978 (the 'Act'), as amended and regulations promulgated thereunder. Under the Act, the Company is required to prepare and file three sets of financial statements:

- 1) *GAAP Financial Statements* – Financial statements prepared in accordance with an internationally recognized comprehensive base of accounting and for which the Company has elected to prepare GAAP financial statements. These financial statements form the basis for the preparation of both the Statutory Financial Statements and the Economic Balance Sheet.
- 2) *Statutory Financial Statements ('SFS')* – Financial statements are equal to GAAP financial statements adjusted for:
 - a. Prudential filters that include adjustments to eliminate non-admitted assets including goodwill, prepaid assets and other similar intangible assets not considered admissible for solvency purposes and adjustments to include certain assets and liabilities that are generally off-balance sheet under general purposes reporting. These include items such as guarantees and other instruments that do not relate to the insurer's own insurance contracts.
 - b. Directions issued by the BMA.
- 3) *Economic Balance Sheet ('EBS')* – A balance sheet composed of assets which are recorded on a GAAP fair value basis and insurance reserves which are based on technical provisions comprised of the sum of a best estimate liability plus a risk margin. The best estimate liability may be calculated by applying the standard approach or scenario approach. Under the standard approach, the discount rate for insurance reserves is a rate prescribed by the BMA. Under the scenario approach, the discount rate for insurance reserves is based on the yield on eligible assets as determined under the worst result of nine prescribed scenarios.

The Company is also required to maintain minimum solvency capital and surplus to meet the minimum solvency ('MMS') and minimum economic statutory capital and surplus to meet the Enhanced Capital Requirement ('ECR'). For Class E insurers, the MMS is equal to the greater of \$8 million or 2% of the first \$500 million of Statutory Financial Statement ('SFS') assets plus 1.5% of SFS assets above \$500 million, subject to a floor of 25% of the ECR. As of December 31, 2023, and 2022, the Company was in excess of the minimum levels required.

Under the Act, the Company is subject to capital requirements calculated using Bermuda Solvency and Capital Requirement ('BSCR'), which is a standardized statutory risk-based capital model used to measure risk associated with the Company's assets and liabilities. Under the BSCR, the required capital and surplus is referred to as the ECR. The ECR is equal to the higher of the BSCR and the MMS. The BMA requires all Class E insurers to maintain their capital at a target level which is 120% of the BSCR. As of December 31, 2023, and 2022, the Company held capital in excess of the target level.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

11. Dividends and Statutory Information (continued)

The Company has received a directive from the BMA which provides permission to ignore the effects of the Derivatives Implementation Group Statement 133 Implementation Issue No. B36 ('DIG B36') and to record its fixed income securities at amortized cost in the Statutory Financial Statements. For the year ended December 31, 2023, comprehensive income in these financial statements is higher by \$170,411 than the net income in the SFS (2022 - lower by \$661,298), due to the permitted practice.

The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR or if it's in breach of its solvency margin or if the declaration or payment of such dividend would cause a breach. Further, as a Class E insurer, the Company is prohibited from declaring or paying a dividend of more than 25% of its total statutory capital and surplus from the prior year unless it files, with the BMA, an affidavit attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. Further, the Company cannot reduce its statutory capital by more than 15% of the prior year's statutory capital without BMA approval. Currently, the Company must obtain approval from the BMA prior to making any dividend payments.

12. Related Parties

The Company is party to a service agreement with its affiliates, Prosperity Services Group LLC ('PSG') and Prosperity Services Limited ('PSL'), each a wholly owned subsidiary of Prosperity, under which PSG and PSL provide certain accounting, actuarial, investment and administrative services to the Company. During the period, the Company incurred \$3,838 (2022 - \$3,532) for these services.

The Company is also party to an investment management agreement with its affiliate, PAM, a subsidiary of Prosperity, under which PAM provides investment management services to the Company. During the period, the Company incurred \$10,185 (2022 - \$11,686) for these services.

Amounts due to affiliates as of December 31, 2023 and 2022 were primarily related to these service agreements.

The Company reported the following amounts due to affiliates as of December 31:

Due to Affiliates	2023	2022
Prosperity Services Group LLC	\$ 582	\$ 296
Prosperity Services Limited	529	1,361
Irizaba Holdco (UK) Limited	–	(19)
Prosperity Asset Management, LLC.	–	2,912
Total¹	\$ 1,111	\$ 4,550

¹ Included within Accrued Expenses and Other Liabilities in the Balance Sheet

Intercompany receivable and payable balances are evaluated on an individual company basis and are generally settled quarterly.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

12. Related Parties (continued)

The Company paid a fee of \$639 in 2023 (2022 - \$359) to companies controlled by certain Board Members of Prosperity, in exchange for various management and advisory services.

PAM Strategic Partners LP (“PSP”), an affiliate of the Company, owns a membership interest in each of Foundation Credit Opportunities GP LLC (“FCO GP”) and FIO GP LLC (“FIO GP”). Additionally, PAM Foundation Investments, Inc. (“PFI”), an affiliate of the Company, owns a limited partnership interest in FCO Advisors LP (“FCO Advisors”), which owns FIO Advisors LP (“FIO Advisors”). The foregoing interests held by PSP and PFI include, among other rights, limited decision rights over certain significant matters. Each of FCO GP, FIO GP, FCO Advisors, and FIO Advisors are directly or indirectly controlled by FCO Management LLC which is, in turn, controlled by an unrelated third party.

The Company, through the funds held by ceding companies, has invested in municipal bonds sourced by FCO Advisors. The Company’s investment manager, PAM, has entered into a consulting agreement with FCO Advisors under which FCO Advisors sources municipal bond investments on behalf of PAM. The Company may invest in the municipal bonds sourced by FCO Advisors at the discretion of PAM, as the Company’s investment advisor. The Company’s investments in bonds sourced by FCO Advisors, which were purchased by the Company, through the funds held by ceding companies, from time to time in separate transactions, totaled \$0 and \$40,006 for the years ended December 31, 2023, and 2022, respectively, with the largest single bond being \$16,495 for the year ended December 31, 2022. All bonds were purchased for fair value on market terms. The return on these municipal bonds is based on the performance of unrelated third parties. Fees owed to FCO Advisors by PAM under the consulting agreement are charged to the Company pursuant to PAM’s investment management agreement with the Company which totaled \$35 and \$40 for the years ended December 31, 2023, and 2022, respectively.

In addition, prior to the Company engaging PAM as its investment manager and the subsequent purchase by PSP and PFI of stakes in FCO GP, FIO GP and FCO Advisors, as applicable, Prosperity Life Insurance Group, LLC (“PLIG”) an affiliate of the Company, entered into an investment management agreement with FIO Advisors on March 12, 2021 pursuant to which FIO Advisors sources third-party investments on behalf of PLIG and its affiliates, including the Company. The Company, through the funds held by ceding companies, made third party investments pursuant to this investment management agreement, all of which was invested prior to 2022. No additional investments under this investment management agreement are contemplated. All investments were purchased for fair value on market terms. The return on these investments is based on the performance of unrelated third parties. Fees owed to FIO Advisors by PLIG under the investment management agreement in respect of any investments acquired by the Company are charged to the Company directly, which totaled \$65 and \$65, for the years ended December 31, 2023, and 2022, respectively.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

12. Related Parties (continued)

The Company, through the funds held by ceding companies, has also acquired \$16,157 and \$11,953 of notes in FIO Insurance Feeder I LLC managed by FIO Advisors for the years ended December 31, 2023 and 2022, respectively. FIO Advisors receives a management fee from the feeder fund. The notes were purchased pursuant to a subscription agreement between the Company and the feeder fund. The feeder fund invests in third-party assets. The return on the underlying investments is based on the performance of unrelated parties. All notes were purchased for fair value on market terms.

The Company has entered into a loan purchase and sale agreement with Vista Point Mortgage (“Vista Point”), pursuant to which the Company, through the funds held by ceding companies, has purchased, through a trust for which such funds held by ceding companies are the sole beneficiary (the “Trust”), third party non-qualified residential mortgage loans originated, or purchased from other originators, by Vista Point. Vista Point has retained the mortgage loan servicing rights (certain of which it has delegated to a third-party sub-servicer) under the loan purchase and sale agreement with Vista Point. Vista Point may be deemed a related party of the Company, as a result of the Company “sharing one or more principal owners, officers and/or directors with an entity that holds a controlling interest in” Vista Point. Purchases of the residential mortgage loans, which were purchased by the Company, through the funds held by ceding companies, were all made prior to 2022. Each residential mortgage loan was purchased for fair value on market terms. The return on these mortgages is based on the performance of unrelated third parties. Monthly servicing fees and expense charges owed indirectly by the Company through Trusts are collected by the sub-servicer of the loans from the balance of interest and other fees received from the borrowers, with the remainder remitted to the Company through the Trust, which the sub-servicer then uses to pay Vista Point, under the loan purchase and sale agreement, totaled \$373 and \$420 for the years ended December 31, 2023, and 2022, respectively.

The Company, through its general account and funds held by ceding companies, has purchased certain securities issued by third-party collateralized loan obligations (“CLOs”) (including the junior-most tranches) originated by Elmwood Asset Management LLC (“Elmwood”), and syndicated by a third-party financial institution in private placement offerings to a broad list of CLO investors. Elmwood is an alternative investment manager that specializes in CLOs and acts as collateral manager of CLO transactions. Elmwood may be deemed a related party of the Company, as a result of the Company “sharing one or more principal owners, officers and/or directors with an entity that holds a controlling interest in” Elmwood. Purchases of CLOs by the Company, which were made time to time in separate transactions, through its general account and funds held by ceding companies, totaled \$0 and \$47,324 for the years ended December 31, 2023, and 2022, respectively. The largest single CLO purchases was \$25,955 for the year ended December 31, 2022. All CLOs were purchased for fair value on market terms. The return on these securities is based on the performance of unrelated third parties. Elmwood receives customary and market fees from the CLOs as collateral manager.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(*\$ in Thousands, except for par value*)

12. Related Parties (continued)

The Company has a loan sourcing agreement with Plum, Inc. (“Plum”), pursuant to which the Company, through the funds held by ceding companies, has invested in third-party commercial real estate mortgage loans originated by Plum. Plum may be deemed a related party of the Company, as a result of the Company “sharing one or more principal owners, officers and/or directors with an entity that holds a controlling interest in” Plum. Purchases of the commercial mortgage loans were all made prior to 2022. Each mortgage loan was purchased for fair value on market terms. The return on these mortgages is based on the performance of unrelated third parties. Sourcing and servicing fees on prior investments were paid by the Company to Plum pursuant to the loan sourcing agreement, totaled \$15 and \$15 for the years ended December 31, 2023, and 2022, respectively.

13. Income Tax

On December 27, 2023, the Bermuda Government signed the Bermuda Corporate Income Tax Act to create a corporate income tax using a 15% statutory tax rate, applicable to companies with annual revenue of EUR 750 million or more, to align with the GloBE rules and qualify as a covered tax. See Note 1 – “Organization and Significant Accounting Policies” for further detail on the Bermuda Corporate Tax Act. Based on available information, on December 31, 2023, the Company calculated a deferred tax asset of \$78,098 for the Bermuda ETA.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	December 31, 2023
Deferred tax assets:	
Economic transition adjustment	\$ 78,098
Valuation allowance	(78,098)
Net deferred tax assets	\$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and available tax planning strategies in making this assessment. Based upon the amount of taxes paid in prior years available for carryback, the reversal of deferred tax liabilities and projections of future taxable income over the periods in which the deferred tax assets are projected to become deductible, management believes it is more likely-than-not the Company will not be able to realize the full benefits of these differences in future years as of December 31, 2023. As of December 31, 2023, the Company has recognized a valuation allowance of \$78,098 related to the deferred tax assets on the ETA from Bermuda’s corporate income tax.

Prosperity Life Assurance Limited
Notes to the Financial Statements
(\$ in Thousands, except for par value)

14. Subsequent Events

Effective January 1, 2024, the Company entered into a term life reinsurance agreement with an affiliated company, S.USA Life Insurance Company, Inc. to reinsure certain policies on a funds withheld basis.

The Company evaluated events from the balance sheet date through April 25, 2024, the date on which these financial statements were available to be issued and determined there were no items to disclose that would have a material effect on the financial condition of the Company, other than that disclosed above.